



*cutting through complexity™*

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# **Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority**

Internal audit report  
Workforce management  
3 April 2012

This report is for:

## Action

*David Cameron - corporate services director (Cairngorms National Park)*

*David McGregor - head of finance and management information (Loch Lomond & The Trossachs National Park)*

*Alastair Hight, Finance Manager (Cairngorms National Park)*

## Information

*Audit committee*

	<b>Page</b>
<b>Introduction and background</b>	2
<b>Key findings and recommendations</b>	5
<b>Internal audit findings</b>	6
<b>Action plan</b>	11
<b>Appendix one:</b> objective, scope and approach	18
<b>Appendix two:</b> classification of internal audit findings	19

### **Notice: About this report**

This Report has been prepared on the basis set out in our Engagement Letter addressed to Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Clients”) dated 15 June 2011 (the “Services Contracts”) and should be read in conjunction with the Services Contract. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contract. This Report is for the benefit of the Clients only. This Report has not been designed to be of benefit to anyone except the Clients. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Clients, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Clients alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Clients’ Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Clients. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Clients alone, this Report has not been prepared for the benefit of any other central government body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the central government sector or those who provide goods or services to those who operate in the sector.

The contacts at KPMG in connection with this report are:

**Stephen Reid**

*Director, KPMG LLP*  
Tel: 0131 527 6795  
Fax: 0131 527 6666  
stephen.reid@kpmg.co.uk

**Brian Curran**

*Senior Manager, KPMG LLP*  
Tel: 0141 300 5631  
Fax: 0141 204 1584  
brian.curran@kpmg.co.uk

**Alison McDougall**

*Audit Assistant, KPMG LLP*  
Tel: 0141 300 5631  
Fax: 0141 204 1584  
alison.mcdougall@kpmg.co.uk

### Introduction and scope

In accordance with the 2011-12 internal audit plan for Loch Lomond & The Trossachs National Park Authority (“LLTNPA”) and Cairngorms National Park Authority (“CNPA” or together “the Authorities”), we have undertaken an internal audit review of workforce management. The overall objective of this audit was to consider the policies and procedures for workforce management and the extent to which they support the achievement of the strategic performance of the Authorities.

### Background

Achievement of strategic objectives requires the engagement by all staff and alignment of goals and objectives should contribute to strategic performance of the Authorities.

#### *Setting strategic objectives*

The Authorities’ individual National Park Plans provide the context and framework for the strategic plans. Both Authorities have now completed public consultation on their National Park Plans for 2012 – 2017 with comments currently being considered in preparation for the submission to the Scottish Ministers later in 2012. These will then used to form corporate and local plans that set out the strategic objectives of the Authorities.

The performance of staff has a significant impact on the Authorities and whether or not the strategic objectives are met; strong, effective workforce management is therefore vital to the Authorities’ success. We note that both Authorities have the same broad approach to setting strategic objectives through the National Park Plans and embedding through corporate and local plans.

#### *Performance management*

Similar staff performance review policies are in place at LLTNPA and at CNPA, although slight differences exist in the timing of the process and documentation requirements.

Reviews are held at the end of the financial year between each employee and their line manager to consider achievement against individual objectives for that year. New objectives are then set for the next financial year which should follow SMART criteria, i.e. they should be specific; measureable; achievable; relevant and time-bound.

An individual’s objectives may be job specific, related to responsibilities of their role, Authority-wide objectives, for example supporting strategic objectives, quality standards or core values, or based on personal development. Training needs are also identified at this stage and noted on the appraisal form. Once agreed these are signed by the line manager and the employee and submitted to the human resources (HR) department. The forms are then reviewed by HR and any training identified is added to a training needs record, and appropriate training sourced, where appropriate.

Mid-year appraisal meetings are held in October to consider progress to date against objectives / goals and take account of any applicable amendments. There is also the opportunity to identify additional training needs at this stage in the process. At CNPA, the training assessment is carried out on a separate form, and submitted to HR. Whereas at LLTNPA, this is completed on the same form as the initial appraisal and only submitted to HR if there is a change to development needs.

Performance against the objectives is reviewed again at the end of the financial year end, where the cycle starts again, with new objectives set for the following year.

### **Performance related pay**

The same system of performance related pay currently operates in both Authorities. The awarding of performance related pay is dependent on the results of the appraisal process, with line managers indicating whether or not the employee has performed to a satisfactory standard over the year. If performance is deemed to be satisfactory, the employee is eligible for an incremental salary progression, where they move up the pay spine by one increment, until they reach the top salary for their band. There are set values for each incremental jump within bands. Consultation is ongoing at both Authorities that is likely to affect current pay structures; this is detailed below.

#### *Cairngorms National Park Authority*

Consultations at CNPA are likely to affect the level of incremental increases in pay. It is proposed that there is a set amount for the bottom and top incremental grade in each band, with the set values at each incremental grade in the structure being removed. On an annual basis, the Authority will have the flexibility to different pay increase percentages for each band. So for example, all band four employees may receive a 2% rise, with band three employees all receiving a 3% rise. This rise will still be contingent on an employee being given a satisfactory appraisal rating. We also note that CNPA has an agreement in place to offer a non-consolidated performance award, again based on performance over the past year, to those staff who have reached the maximum of their salary grade. This is designed to maintain some performance incentive beyond the period where staff are progressing through their salary band. At present, operation of this system is suspended under Scottish Government Public Sector Pay Policy.

#### *Loch Lomond and the Trossachs National Park Authority*

LLTNPA is consulting over proposals for employees to receive one of three possible grades, pay rises being dependent on that grade. Grades will be based on an assessed 'total contribution' rather than simply performance against individual objectives. Total contribution will be based on: delivery of targets and objectives, behaviours, wider contribution and development.

There are different schools of thought on effective workforce management methodologies and it is important that individual organisations choose a methodology which fits with other policies and practices and resourcing needs. Though different, the consultations currently being undertaken by both Authorities each have their individual merits. At LLTNPA, by clearly linking pay rises to performance, overall remuneration levels should help motivate staff to operate to their maximum potential. Alignment of individual goals with the Authority's goals will assist in achieving overall strategic goals. At CNPA, where the same pay award is given to all employees, based on an acceptable performance rating, may help ensure the transparency of the overall process. Areas of weakness can be raised and development needs identified without employees being unfairly penalised.

We have identified a number of areas of best practice in the procedures at both Authorities.

### *Strategic goals*

There is a clear process for setting long-term strategic goals, and then ensuring these are incorporated into shorter-term goals for each Authority. Our testing has identified that strategic goals have been successfully cascaded to staff who are aware of those, in particular, that directly affect their work. Additionally, a number of staff have been closely involved in determining strategic goals contained within the National Park Plans. This knowledge and ownership of strategic goals is a positive sign and enhances the likelihood that these will be achieved.

Both Authorities have clear hierarchical structures, with clear lines of communication for disseminating information on strategic goals. Reports on performance against these goals are submitted to the relevant Authority boards on a regular basis to ensure effective monitoring.

### *Complexity of appraisal system*

Both Authorities follow a similar process, which is a suitable size for organisations of this size and complexity. The Advisory, Conciliation and Arbitration Service (“ACAS”) guidance on employee appraisal systems stresses the importance of ensuring that appraisal systems in smaller organisations are designed to meet the needs of the organisation and are not over elaborate. Systems that managers and employees feel are too complex or too detailed can fail from lack of ‘buy-in’.

The systems currently in place are straightforward, which is appropriate for the size of the organisations. Both Authorities allow a degree of flexibility in the process, such as how evidence is kept and tailoring of documentation requirements, which staff welcome. This helps to ensure that the process operates effectively, as the commitment required can be tailored to the needs of employees.

### *Employee surveys*

Both Authorities participate in staff surveys, where staff are asked for their views of various aspects of their employment. CNPA does this on a formal basis through the Investors in People accreditation, and also participation in the Sunday Times Best Public Sector Organisations survey. LLTNPA uses an internal survey to seek the views of their staff. The results have been reported to the board and actions are being implemented with the aim of improving staff satisfaction.

The surveys carried out by CNPA also allow for external benchmarking, which can help to further improve performance by taking account of the strengths of other organisations, so that best practice can be identified and leveraged where appropriate.

## Key findings and recommendations

We identified four 'moderate' and two 'low' rated findings at each Authority.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTNP	-	-	4	2
	CNPA	-	-	4	2
Number of recommendations accepted by management	LLTNP	-	-	[ ]	[ ]
	CNPA	-	-	[ ]	[ ]

Classification of internal audit findings is provided in appendix two.

### *Strategic goals*

The nature of the goal setting process means that both Authorities have clear strategic goals, that are then broken down into operational goals. Our testing found that line managers are aware of the strategic goals and how their work links into these. However, a number of line managers at both Authorities remarked that whilst their employees were aware of the strategic goals, they may not fully understand the direct link that their work has in achieving them. Neither Authority has a direct link to the strategic goals included in the appraisal documentation. This makes it difficult to assess whether individual goals meet the 'relevant' criteria for 'SMART'.

If employees do not understand how their work links in to the overall goals of the Authority, their efforts may not be supporting the Authorities' work towards them.

### ***Recommendation one***

### *Continuous improvement*

Discussions with staff show that training is widely available and appreciated by employees. Testing found that where a training course was identified, this was frequently delivered. However, some line managers at both Authorities indicated that training was not always provided when it was requested during the appraisal process. This may be due to a number of reasons such as unavailability of courses or logistical reasons, but there was a lack of communication of why training was not provided.

Due to limited budgets and meeting the needs of the organisation, training is unlikely to be provided in all cases. However, if training is not approved and feedback is not provided to line managers and employees, there is a risk that employees and their managers feel that the organisation is not providing them with improvement opportunities that they need.

### ***Recommendation two***

### *Training in the appraisal process*

CNPA provided specific training to line managers and employees on the appraisal process in 2005 and 2009. However, no refresher training has been given, and there are line managers who were not in post during this time who have therefore not received formal training. Discussions with line managers who had already received training suggested they did not feel attending additional training would be beneficial.

LLTNPA adopted the current process approximately two years ago. Training had been provided on the previous process, however no training has been provided since introduction of the new process. As with CNPA, there are now new line managers who were not in post when the original training was given.

Training is important for managers to ensure they can assess performance accurately, complete the required documentation and give feedback effectively. Effective management is critical to the quality of the appraisal process. It is also important that managers get to practice these skills and to receive feedback on their own performance.

### ***Recommendation three***

*Performance-related pay*

There have been no recent instances at either Authority of employees not being awarded annual incremental pay increases. Both Authorities have a capability policy that is implemented if an individual's performance is below expectations. There are recent instances of this being implemented at CNPA, but not at LLTNPA. Discussions with staff suggest that informal procedures are followed to try to improve performance which have been effective. The results of the 2010 staff survey at LLTNPA showed that not challenging poor performance was an area that employees disliked.

If staff feel that there is a low chance of not being awarded incremental pay rises, this reduces the incentives for staff to work to their full potential, as they may not feel they will receive suitable rewards for their efforts. Similarly, staff may feel aggrieved if they believe other staff are not working to the best of their ability, but this is not reflected in their reward or performance rating. Further training of appraisal managers should include a focus on clarifying the links between performance and reward.

*Submission of documentation*

At both Authorities, appraisal forms should be submitted to HR by 30 April for annual appraisals. At CNPA, there is a deadline of 30 November for the mid-year appraisal, whereas LLTNPA do not require submission of documentation, unless there is a change to development needs.

Testing at CNPA found approximately 13% of forms had not been received from the March 2011 appraisal (8 forms out of 60 employees), and 42% of forms had not been received from the mid-term appraisal (25 forms from 60 employees) at the time of the audit. We note that this was also a recommendation of a previous internal audit review of the HR appraisal process carried out in 2009-10 for CNPA. Similar testing at LLTNPA found that 17% forms had not been submitted from the March 2011 appraisal (22 forms out of approximately 130 employees).

Without timely receipt of this information by HR, there is a risk that poor performance is not identified at an early stage and that pay awards may be delayed or paid inappropriately (i.e. to staff who have been underperforming). It is also important that HR can review the appraisal documentation to ensure there are no other issues to take into account, for example discrimination.

Discussions with staff identified that some felt that the current documentation requirements are onerous. There are also issues with the timing of the appraisal process, which requires the final appraisal to be held at one of the busiest times of the year.

***Recommendation four***

*Objectives, competencies and evidence*

Best practice suggests that objectives should be SMART: specific, measurable, achievable, relevant and timely. Review of individual appraisal forms found that these criteria were not always followed.

The objectives set at LLTNPA appeared to include more SMART criteria than at CNPA. This may be due to a difference in the form, where at LLTNPA a table is included that asks for the objective, how it is to be measured and the timescale. This is in contrast to a blank space at CNPA.

If goals are not SMART, there is a risk that objectives will be vague and employees and managers will not be able to assess whether or not these have been met.

Both Authorities currently utilise a competency framework. This takes the form of seven core competencies with varying levels of each competency by role. The appraisal process should identify both areas where an employee is exceeding expectations, and where there is scope for development. The current format of documentation results in a variance in the quality of evidence supplied and in some cases certain sections of forms had not been completed.

If clear evidence as to whether or not an employee has met competences is not produced and retained, there is a risk that appraisals are not effective, i.e. that employees receive an incorrect performance grading, or do not receive adequate development if poor performance is not identified.

Currently, evidence at both Authorities is collected based on the preference of the line manager. In many instances, regular team meetings are held, which provide regular feedback on performance which will feed into the appraisal interviews. However, the documentation of this varies, with some line managers keeping notes and others not.

With no formal requirement on producing or retaining evidence, there is a risk that line managers are inappropriately rating employees based on recent events, rather than performance across the whole year.

**Recommendation five**

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>1 Strategic goals</b>		
<p>The current appraisal documentation does not require any objectives to be linked to the Authority's strategic goals. In many instances, employees are directly involved in activities to meet the strategic goals.</p> <p>However, some employees may not be able to clearly see the link between their work and the overall performance of the Authority.</p>	<p>We recommend that management consider ways to ensure that all employees fully understand the link between their work and that of the Authority as a whole, without creating onerous documentation requirements.</p>	<p style="text-align: center;"><b>Moderate</b></p> <p>Nuance of recommendation agreed. In practice, given the inter-connected nature of much of the work of both organisations, much work contributes to multiple strategic goals. We will consider how best to specifically and explicitly link individual targets to (the most relevant) strategic goals to help improve transparency of process.</p> <p><b>Responsible officer:</b> HR managers</p> <p><b>Implementation date:</b> September 2012 – in time for Autumn appraisal review cycle and following completion of current Corporate Plan processes.</p>
<b>2 Continuous improvement</b>		
<p>Training needs are assessed as part of the appraisal process. HR then source courses and arrange for employees to attend, where applicable.</p> <p>Constraints mean that identified training is not always provided. There is a risk that employees and line managers may not fully understand the reasons for not being given training that was requested, and may feel that their development needs are not being supported.</p>	<p>If training that has been identified in the appraisal process, and is not going to be provided, HR should formally feedback to the employee and their line manager.</p> <p>Where training is not available, HR should work with line managers and employees to support other ways in which the need can be met, such as through coaching.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Recommendation accepted. HR Managers will put in place some system that provides feedback on training availability on hence provide feedback on training requests. It should be noted that line managers and staff are themselves sometimes responsible for sourcing the most appropriate training, as the people who best know their area of the business. So some of the responsibility for "closing the loop" on training lies with these individuals and not always with HR. We will also remind line managers about this process.</p> <p><b>Responsible officer:</b> HR Managers.</p> <p><b>Implementation date:</b> January 2013 in time for 2013/14 appraisal cycle.</p>

## Action plan – LLTNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>3 Training in the appraisal process</b>		<b>Low</b>
<p>Training has not been carried out for the appraisal system currently in use.</p> <p>There is a risk that line managers do not feel comfortable challenging poor performance and may not be providing employees with the best possible feedback.</p>	<p>We recommend that training is provided prior to managers being asked to set objectives that will affect the total contribution scheme. This should include training on the system, ensuring consistency in grading and how to give feedback.</p>	<p>Agreed.</p> <p><b>Responsible officer:</b> HR Managers to oversee.</p> <p><b>Implementation date:</b> December 2012.</p>
<b>4 Submission of documentation</b>		<b>Moderate</b>
<p>Appraisal documentation is not submitted on a timely basis to HR.</p> <p>Mid-year documents only need to be submitted if there has been a change to development needs.</p> <p>This creates a risk that appraisals are not being carried out and that HR will not be notified of poor performance at an appropriate stage.</p>	<p>We recommend that management review the current timetable for the appraisal process, as this currently happens at a very busy time of the year.</p> <p>Management should also consider introducing a system where the dates of mid-year appraisals are recorded centrally, so there is confirmation that it has occurred. Prior to implementing the new process, management should consider ways to ensure that documentation is submitted on a timely basis to HR, to ensure delays are not experienced.</p>	<p>Agreed. Review of system and timetable with new enforcement mechanisms will be undertaken.</p> <p><b>Responsible officer:</b> HR Managers.</p> <p><b>Implementation date:</b> June 2012 for enforcement mechanisms. December 2012 for wider review of timetable.</p>

## Action plan – LLTNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>5 Appraisal process</b></p> <p>The current documentation requirements for competences mean it is difficult to assess if managers are using these appropriately.</p> <p>There is a risk that incremental pay awards are being made, but competencies are not being met.</p>	<p>Management should review the competences in the appraisal process and consider if these are still relevant to the organisation.</p>	<p style="text-align: center;"><b>Moderate</b></p> <p>Agreed. Review of use of competency analysis in appraisal process to be undertaken (and already incorporated into LLTNPA consultations around “total reward” appraisal system).</p> <p><b>Responsible officer:</b> HR managers.</p> <p><b>Implementation date:</b> December 2012.</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>1 Strategic goals</b></p>		
<p>The current appraisal documentation does not require any objectives to be linked to strategic goals. In many instances, employees are directly involved in activities to meet the strategic goals.</p> <p>However, some employees may not be able to see a direct link, and cannot clearly see the link between their work and the overall performance of the Authority.</p>	<p>We recommend that management consider ways to ensure that all employees fully understand the link between their work and that of the Authority as a whole, without creating onerous documentation requirements.</p>	<p style="text-align: center;"><b>Moderate</b></p> <p>Nuance of recommendation agreed. In practice, given the inter-connected nature of much of the work of both organisations, much work contributes to multiple strategic goals. We will consider how best to specifically and explicitly link individual targets to (the most relevant) strategic goals to help improve transparency of process.</p> <p><b>Responsible officer:</b> HR managers</p> <p><b>Implementation date:</b> September 2012 – in time for Autumn appraisal review cycle and following completion of current Corporate Plan processes.</p>
<p><b>2 Continuous improvement</b></p>		
<p>Training needs are assessed as part of the appraisal process. HR then source courses and arrange for employees to attend where applicable.</p> <p>Constraints will mean that training will not always be provided. There is a risk that employees and line managers may not fully understand the reasons for not being given training that was requested, and may feel that their development needs are not being supported.</p>	<p>If training that has been identified in the appraisal process, and is not going to be provided, HR should formally feedback to the employee and their line manager.</p> <p>Where training is not available, HR should work with line managers and employees to support other ways in which the need can be met, such as through coaching.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Recommendation accepted. HR Managers will put in place some system that provides feedback on training availability on hence provide feedback on training requests. It should be noted that line managers and staff are themselves sometimes responsible for sourcing the most appropriate training, as the people who best know their area of the business. So some of the responsibility for “closing the loop” on training lies with these individuals and not always with HR. We will also remind line managers about this process.</p> <p><b>Responsible officer:</b> HR Managers.</p> <p><b>Implementation date:</b> January 2013 in time for 2013/14 appraisal cycle.</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>3 Training in the appraisal process</b></p> <p>Training has not been recently carried out in the appraisal process.</p> <p>There is a risk that line managers do not feel comfortable challenging poor performance and may not be providing employees with the best possible feedback.</p>	<p>CNPA allows a degree of adaptation to the appraisal process depending on the manager. Management should consider implementing informal training, where managers can discuss their approach and share ideas, so best practice is shared and feedback given to employees can be improved.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed.</p> <p><b>Responsible officer:</b> HR Managers to oversee.</p> <p><b>Implementation date:</b> December 2012.</p>
<p><b>4 Submission of documentation</b></p> <p>Appraisal documentation is not submitted on a timely basis to HR for both the mid-year and year-end appraisal.</p> <p>This creates a risk that appraisals are not being carried out and that HR will not be notified of poor performance at an appropriate stage.</p>	<p>We recommend that management review the current timetable for the appraisal process, as this currently happens at a very busy time of the year.</p> <p>Management should consider whether they could reduce the administration load by only requiring submission of the mid-year forms if development needs change. If this was to be introduced, a control should be implemented where employees and line managers confirm the appraisal has been held and no changes to development needs were identified.</p>	<p style="text-align: center;"><b>Moderate</b></p> <p>Agreed. Review of system and timetable with new enforcement mechanisms will be undertaken.</p> <p><b>Responsible officer:</b> HR Managers.</p> <p><b>Implementation date:</b> June 2012 for enforcement mechanisms. December 2012 for wider review of timetable.</p>

## Action plan CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>5 Appraisal process</b></p> <p>Currently, not all line managers are setting SMART objectives for all employees.</p> <p>The current documentation requirements for competences mean it is difficult to assess if managers are using these appropriately.</p> <p>There is a risk that incremental pay awards are being made, but competences are not being met.</p>	<p>Management should review the current documentation requirements to ensure they are still relevant. Reducing requirements may encourage earlier submission of the documents to HR.</p> <p>Management should also consider introducing a table, as used by LLTNPA, for recording objectives that may encourage line managers to set SMART objectives.</p>	<p style="text-align: center;"><b>Moderate</b></p> <p>Agreed. Review of the use of competency analysis in appraisal process to be undertaken.</p> <p><b>Responsible officer:</b> HR managers.</p> <p><b>Implementation date:</b> December 2012.</p>

# Appendices

## Objective, scope and approach

In accordance with the 2011-12 internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Authorities”), we will undertake an internal audit review of workforce management.

### Objective

Achievement of the strategic plans requires the engagement by all staff and alignment of goals and objectives should contribute to strategic performance of the Authorities. The overall objective of this audit is to consider the policies and procedures in place for workforce management and the extent to which they support achievement of these outcomes.

### Scope

This joint review will consider, and compare the extent to which:

- strategic goals are appropriately cascaded across operational and support functions and down through lines of reporting and accountability;
- the staff performance management framework is used to retain and manage talent;
- management supports continuous improvement in staff performance; and
- performance against objectives is assessed in a robust and evidence based manner on a regular basis.

### Approach

We will adopt the following approach in this review:

- project planning and scoping;
- conducting interviews with staff to gain an understanding of policies and procedures in place;
- reviewing policies and procedures in place including adequacy against best practice;
- reviewing the extent to which existing policies and procedures have been followed and implemented; and
- agreeing findings and recommendations with management.

## Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of more than 1%* of total expenditure.</li> <li>• Detrimental impact on operations or functions.</li> <li>• Sustained, serious loss in brand value.</li> <li>• Going concern of the organisation becomes an issue.</li> <li>• Decrease in the public's confidence in the Authority.</li> <li>• Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty.</li> <li>• Life threatening.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate notification to the Authority's audit committee.</li> <li>• Requires executive management attention.</li> <li>• Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days.</li> <li>• Separately reported to chairman of the Authority's audit committee and executive summary of report.</li> </ul>
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of 0.5% to 1%* of total expenditure.</li> <li>• Major impact on operations or functions.</li> <li>• Serious diminution in brand value.</li> <li>• Probable decrease in the public's confidence in the Authority.</li> <li>• Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty.</li> <li>• Extensive injuries.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires prompt management action.</li> <li>• Requires executive management attention.</li> <li>• Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months.</li> <li>• Reported in executive summary of report.</li> </ul>

\* Materiality is quantified on page 20.

## Classification of internal audit findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of 0.1% to 0.5%* of total expenditure.</li> <li>• Moderate impact on operations or functions.</li> <li>• Brand value will be affected in the short-term.</li> <li>• Possible decrease in the public's confidence in the Authority.</li> <li>• Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty.</li> <li>• Medical treatment required.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires short-term management action.</li> <li>• Requires general management attention.</li> <li>• Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months.</li> <li>• Reported in executive summary of report.</li> </ul>
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of less than 0.1%* of total expenditure.</li> <li>• Minor impact on internal business only.</li> <li>• Minor potential impact on brand value.</li> <li>• Should not decrease the public's confidence in the Authority.</li> <li>• Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty.</li> <li>• First aid treatment.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires management action within a reasonable time period.</li> <li>• Requires process manager attention.</li> <li>• Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> <li>• Reported in detailed findings in report.</li> </ul>

\* Materiality is quantified on page 20.

## Classification of internal audit findings (continued)

The definitions of the materiality used to classify the impact of our findings are detailed below and are based on the 2009-10 financial statements.

Rating	Definition	Loch Lomond & The Trossachs National Park Authority	Cairngorms National Park Authority
Critical	Potential financial impact of more than 1% of total expenditure	Greater than £80,000	Greater than £50,000
High	Potential financial impact of 0.5% to 1% of total expenditure	Between £40,000 and £80,000	Between £25,000 and £50,000
Moderate	Potential financial impact of 0.1% to 0.5% of total expenditure	Between £8,000 and £40,000	Between £5,000 and £25,000
Low	Potential financial impact of less than 0.1% of total expenditure	Less than £8,000	Less than £5,000



*cutting through complexity™*

© 2012 KPMG LLP, a UK Limited Liability Partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.  
All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).